

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name St. Clair County	County St. Clair County
Fiscal Year End December 31, 2006	Opinion Date June 22, 2007	Date Audit Report Submitted to State September 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

### FINANCIAL STATEMENT PREVIOUSLY SUBMITTED

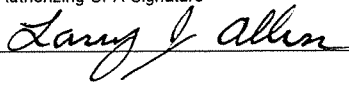
YES ☐ NO ☒

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Management Letter	
Other (Describe)     Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State     Zip MI     48060
Authorizing CPA Signature 		Printed Name Larry J. Allen	
		License Number 1101008117	

**ST. CLAIR COUNTY, MICHIGAN**

**SUPPLEMENTARY INFORMATION TO  
BASIC FINANCIAL STATEMENTS**

**(FEDERAL AWARDS)**

**FOR THE YEAR ENDED DECEMBER 31, 2006**



# ST. CLAIR COUNTY, MICHIGAN

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**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY FINANCIAL INFORMATION**

To the Board of Commissioners  
of St. Clair County  
St. Clair, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of St. Clair County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements. Those financial statements are the responsibility of St. Clair County's management. Our responsibility is to express opinions on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise St. Clair County, Michigan's basic financial statements. The Schedule of Expenditures of Federal Awards presented on pages 6 through 9 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations and is not a required part of the basic financial statements. The information in this schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

June 22, 2007



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
of St. Clair County  
St. Clair, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of St. Clair County, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon, dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financing Reporting**

In planning and performing our audit, we considered the County of St. Clair, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by St. Clair County's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, which are referenced as 06-01, 06-02, 06-03, 06-04 and 06-05.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by St. Clair County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above as 06-01, 06-02 and 06-03 are material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether St. Clair County, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of St. Clair County, Michigan in a separate letter dated June 22, 2007.

St. Clair County's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit St. Clair County's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Commissioners, others with the County of St. Clair, Michigan, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

June 22, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners  
of St. Clair County  
St. Clair, Michigan

**Compliance**

We have audited the compliance of the County of St. Clair, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County of St. Clair, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County of St. Clair, Michigan's management. Our responsibility is to express an opinion on the County of St. Clair, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of St. Clair, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County of St. Clair, Michigan's compliance with those requirements.

In our opinion, the County of St. Clair, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 06-1A and 06-2A.

**Internal Control Over Compliance**

The management of the County of St. Clair, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County of St. Clair, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of St. Clair County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, others within the County of St. Clair, Michigan, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

June 22, 2007



**ST. CLAIR COUNTY, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u><b>U.S. DEPARTMENT OF AGRICULTURE:</b></u>			
<u>Passed Through the Michigan Department of Education:</u>			
Nutrition Cluster:			
Nutrition Cluster -			
School Breakfast Program (b)	10.553	740008001A	\$ 28,825
National School Lunch Program (b)	10.555	740008001A	43,904
Total Nutrition Cluster			<u>72,729</u>
<u>Passed Through the Michigan Department of Community Health:</u>			
Special Supplemental Food Program for Women, Infants, and Children - WIC	10.557	N/A	<u>498,444</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u><b>571,173</b></u>
<u><b>U.S. DEPARTMENT OF COMMERCE:</b></u>			
<u>Passed Through the Michigan Department of Environmental Quality:</u>			
Coastal Zone Management Administration Awards	11.419	N/A	<u>6,669</u>
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>			<u><b>6,669</b></u>
<u><b>U.S. DEPARTMENT OF JUSTICE:</b></u>			
<u>Passed Through the Michigan Department of Human Services</u>			
Juvenile Accountability Incentive Block Grant	16.523	JAIBG-05-74001	8,348
		JAIBG-06-74001	8,357
			<u>16,705</u>
<u>Passed Through Michigan Department of Community Health</u>			
Residential Substance Abuse Treatment for State Prisoners	16.593	N/A	<u>143,258</u>
<u>Direct Programs - through Department of Justice.</u>			
Bulletproof Vest Partnership Program	16.607	N/A	<u>3,285</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006DJBX0444	3,723
		2005DJBX0451	21,902
			<u>25,625</u>
Total Direct Programs - through Department of Justice			<u>28,910</u>
<u>Passed Through The Michigan Department of State Police:</u>			
Enforcing Underage Drinking Laws Program	16.727	N/A	<u>16,166</u>
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<u><b>205,039</b></u>

**ST. CLAIR COUNTY, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
<b><u>Passed Through Southeast Michigan Council of Governments</u></b>			
Highway Planning and Construction - St. Clair County Transit Study	20.205	N/A	\$ 102,729
<b><u>Passed Through Michigan Department of Transportation</u></b>			
Airport Improvement Program	20.106	N/A	199,202
Highway Planning and Construction - Transportation Enhancement	20.205	N/A	175,450
Total Passed Through Michigan Department of Transportation			374,652
<b><u>Passed Through Michigan Department of State Police</u></b>			
<b><u>Office of Highway Safety Planning -</u></b>			
State and Community Highway Safety Project	20.600	N/A	52,544
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<b>529,925</b>
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u></b>			
<b><u>Passed Through the Michigan Department of Environmental Quality:</u></b>			
Non-point Source Implementation Grant - Watershed Protection and Flood Prevention	66.460	N/A	7,106
Capitalization Grants for Drinking Water Revolving Funds - State Revolving Fund Loan (a)	66.468	705201	1,249,489
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs - Expense Reimbursement Grants - Operator Certification	66.471	N/A	1,200
Beach Monitoring and Notification Program - Implementation Grants	66.472	N/A	13,909
<b>TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY</b>			<b>1,271,704</b>
<b><u>U.S. DEPARTMENT OF EDUCATION:</u></b>			
<b><u>Passed Through the Michigan Department of Community Health</u></b>			
Safe and Drug Free Schools and Communities State Grants - Summer Team Program	84.186A	20011728	30,974
<b><u>Passed Through Michigan State University Cooperative Extension</u></b>			
Twenty-First Century Community Learning Centers	84.287	N/A	47,372
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>78,346</b>

**ST. CLAIR COUNTY, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u><b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b></u>			
<u><b>Passed Through the Michigan Department of Human Services:</b></u>			
Child Support Enforcement (Title IV-D) -	93.563		
Cooperative Reimbursement Program -			
Medical Incentive		N/A	\$ 280,114
Friend of Court (a)		CS/FOC -74001	1,943,106
Prosecuting Attorney (a)		CS/PA -74002	131,364
			<u>2,354,584</u>
Grants to States for Access and Visitation Programs	93.597	N/A	<u>722</u>
Foster Care (Title IV-E) -	93.658		
Prosecuting Attorney (a)		N/A	<u>19,097</u>
Medical Assistance Program -	93.778		
Children Special Health Care (a)		N/A	<u>13,997</u>
Total Passed Through the Michigan Department of Human Services			<u>2,388,400</u>
<u><b>Passed Through the Michigan Department of Community Health:</b></u>			
Family Planning Services	93.217	N/A	<u>81,139</u>
Substance Abuse and Mental Health Services			
Project of Regional and National Significance - SIG -			
SIG - Center for Human Resources	93.243	N/A	<u>122,493</u>
Immunization Grants -	93.268		
Vaccine Doses		N/A	587,358
Childhood Immunization		N/A	67,656
Immunization - Field Services		N/A	99,588
			<u>754,602</u>
Centers for Disease Control-Investigations and Technical Assistance-	93.283		
Bioterrorism Grant		N/A	<u>329,109</u>
State Children Insurance Program			
Adult Benefit Waiver	93.767	N/A	<u>39,176</u>
Block Grants for Prevention and Treatment of Substance Abuse (a)	93.959		
Treatment and Prevention		20061012	<u>1,167,558</u>
Maternal and Child Health Services Block Grant -	93.994		
Family Planning		N/A	22,184
Primary Care Dental		N/A	30,003
Outreach		N/A	115,864
			<u>168,051</u>

**ST. CLAIR COUNTY, MICHIGAN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Cont'd):</u>			
<u>Passed Through the Michigan Department of Community Health (Cont'd):</u>			
Prevention Health Services STD Control	93.997	N/A	\$ 2,500
Total Passed Through the Michigan Department of Community Health			2,664,628
<u>Passed Through Southeastern Michigan Health Association:</u>			
HIV Emergency Relief Project	93.914	N/A	104,140
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>5,157,168</b>
<u>U.S. DEPARTMENT OF HOME LAND SECURITY</u>			
<u>Passed Through Michigan Department of State Police:</u>			
State Domestic Preparedness Equipment - Support Program	97.004	N/A	416,143
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	N/A	3,591
Emergency Management Performance Grant	97.042	N/A	29,579
Citizen CORP	97.053	N/A	6,204
Homeland Security Grant Program	97.067	N/A	999,573
Buffer Zone Protection Plan (BZPP)	97.078	N/A	49,976
Total Passed Through Michigan Department of State Police			1,505,066
<u>Passed Through Michigan Department of Natural Resources</u>			
Boating Safety Financial Assistance	97.012	N/A	25,787
<b>TOTAL U.S. DEPARTMENT OF HOME LAND SECURITY</b>			<b>1,530,853</b>
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 9,350,877</b>

See Notes to Schedule of Expenditures of Federal Awards

## ST. CLAIR COUNTY, MICHIGAN

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of St. Clair and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The St. Clair County Mental Health Authority is reported as a discretely presented component unit in the financial statements of St. Clair County as of and for the year ended December 31, 2006. The Authority expended \$739,174 in federal awards, however, was not reported in the Schedule of Expenditures of Federal Awards because a separate A-133 audit was performed.

The St. Clair County Road Commission is reported as a discretely presented component unit in the financial statements of St. Clair County as of and for the year ended December 31, 2006. The Road Commission reported \$3,277,338 in federal awards; however, a separate A-133 audit was not performed because the expenditures were administered by the Michigan Department of Transportation.

#### NOTE 2 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE:

The following descriptions identified below as (a) and (b) represent explanations that cross reference to amounts and headings of the Schedule of Expenditures of Federal Awards.

- (a) Reimbursements of these contracts are not funded 100% by the Federal Government. The revenues reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective reimbursements and are a percentage of total contract expenditures as summarized below:

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
State Capitalization Grants for Drinking – Water Revolving Funds	66.460	39.29 %
Coop. Reimbursement & Medical Support Enforcement	93.563	66.00
Block Grants for Prevention & Treatment of Substance Abuse - Treatment and Prevention	93.959	80.00
Child Protection Investment Title IVE	93.658	50.00
State Children Insurance Program - Medical Assistance Program – Children Special Health	93.767	69.61
	93.778	50.00

- (b) The reimbursements for the School Breakfast and National School Lunch Program are determined by applying approved reimbursement rates to the number of allowable breakfast and lunches served during each reporting period. Expenditures are reported equal to revenue.

# ST. CLAIR COUNTY, MICHIGAN

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2006

### NOTE 3 - NUTRITION CLUSTER:

#### Supplementary Data:

	Accrued Revenue at Jan. 1, 2006	Prior Years Expenditures	Current Years Expenditures	Current Years Cash Receipts	Accrued Revenue at Dec. 31, 2006
Juvenile Center - Breakfast -					
71970	\$ -	\$ -	\$ 8,469	\$ 5,627	\$ 2,842
61970	1,273	3,737	20,355	21,628	-
51970	-	9,554	-	-	-
Total CFDA #10.553	<u>\$ 1,273</u>	<u>\$ 13,291</u>	<u>\$ 28,824</u>	<u>\$ 27,255</u>	<u>\$ 2,842</u>
Sec 4 - Total Servings -					
71950	\$ -	\$ -	\$ 1,307	\$ 864	\$ 443
61950	201	593	3,215	3,416	-
51950	-	1,502	-	-	-
Sec 11 - Free and Reduced -					
71950	-	-	11,347	7,499	3,848
61950	1,758	5,187	28,035	29,793	-
51950	-	13,220	-	-	-
Total CFDA #10.555	<u>\$ 1,959</u>	<u>\$ 20,502</u>	<u>\$ 43,904</u>	<u>\$ 41,572</u>	<u>\$ 4,291</u>

\*Agrees with amounts reported on the Michigan Department of Education Grant Auditors Report - Form R7120

### NOTE 4 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The following schedule reconciles the federal/state intergovernmental revenues reported in the December 31, 2006, basic financial statements for the primary government and the intergovernmental revenues reported in the various discretely presented component units 2006 financial statements to the expenditures of the County administered federal programs reported on the Schedule of Expenditures of Federal Awards.

	General Fund	Other Governments Funds	Enterprise Funds	Discretely Presented Component Units	Total
Federal/State					
Revenue per basic financial statement	\$ 8,676,173	\$ 8,257,609	\$ 132,724	\$ 92,435,368	\$ 109,501,874
Less: State Intergovernmental Revenue	( 4,731,753)	( 4,106,872)	( 132,724)	( 87,279,839)	( 96,251,188)
Federal revenue per basic financial statements	3,944,420	4,150,737	-	5,155,529	13,250,686
Add (less) reconciling items identified as (a) - (c)					
(a)	-	-	-	( 3,277,338)	( 3,277,338)
(b)	-	-	-	116,703	116,703
(c)	-	-	-	( 739,174)	( 739,174)
	<u>\$ 3,944,420</u>	<u>\$ 4,150,737</u>	<u>\$ -</u>	<u>\$ 1,255,720</u>	<u>\$ 9,350,877</u>

**ST. CLAIR COUNTY, MICHIGAN**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 4 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
– (cont'd):**

The following descriptions identified below as (a) - (c) represent explanations of the reconciling amounts that cross reference to amounts of the Reconciliation to Schedule of Expenditures of Federal Awards:

- (a) It is required by the Michigan Department of Transportation that the County report total federal financial assistance for Road Improvement Programs. However, only the federal financial assistance applicable to expenditures for work performed or contracted by the County is required to be audited for compliance under the Single Audit Act through County procurement. The reason for this requirement is that the County is required to have accounting and administrative control over these expenditures while the balance is administered by the Michigan Department of Transportation.
- (b) The amount represents the Federal portion of amount received from the Blue Water Area Transportation Commission reported in the St. Clair County Community Mental Health Authority as intergovernmental-local sources.
- (c) The amount represents the Federal dollars audited under separate single audit for the St. Clair County Community Mental Health Authority. A separate single audit has been issued.

**NOTE 5 - SUBRECIPIENTS:**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the County of St. Clair, Michigan provided federal awards to subrecipients as follows:

<u>Federal Award</u>	<u>CFDA#</u>	<u>Amount</u>
Block Grants for prevention and treatment of substance abuse	93.959	\$ 1,167,558
Projects of Regional and National significance	93.243	122,493
Adult Benefit Waiver	93.767	39,176

**ST. CLAIR COUNTY, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Section I – Summary Of Auditor’s Results:**

**Financial Statements**

Type of auditor’s report issued: Unqualified

Internal controls over financial reporting:  
Material weakness(es) identified?     x     yes          no  
Significant deficiency(ies) identified not  
considered to be material weaknesses?     x     yes          none reported

Noncompliance material to financial  
statements noted?          yes     x     no

**Federal Awards**

Internal Control over major programs:  
Material weakness(es) identified?          yes     x     no  
Significant deficiency(ies) identified not  
considered to be material weaknesses?          yes     x     none reported

Type of auditor’s report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required to  
be reported in accordance with Circular A – 133,  
Section 510(a)?     x     yes          no

**Identification of Major Programs:**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #10.557	Special Supplemental Food Program for Women, Infants and Children – WIC
CFDA #66.468	Capitalization Grants for Drinking Water Revolving Fund
CFDA #93.283	Centers for Disease Control – Investigations and Technical Assistance
CFDA #93.563	Child Support Enhancement
CFDA #97.004	Homeland Security Grant Cluster - State Domestic Preparedness – Equipment Grant
CFDA #97.067	State Homeland Security Program

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?          yes     x     no



## ST. CLAIR COUNTY, MICHIGAN

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2006

#### Section II – Financial Statement Findings:

The following three findings are considered to be significant deficiencies on internal control over financial reporting that are also considered to be material weaknesses:

##### 06-01

**Program:** This Financial Statement finding does not have an effect on Federal Awards.

**Condition:** We believe the County has the technical expertise and ability to prepare the Comprehensive Annual Financial Report in accordance with generally accepted accounting principles. However, we proposed a number of significant journal entries based on our audit procedures. As a result, if the financial statements had been drafted prior to our proposed entries, the financial statements would not have been correctly stated.

**Criteria:** Statement on Auditing Standards No 112 “Communicating Internal Control Related Matters in the Audit” specifies that if material audit adjustments are proposed, the entity has a significant deficiency in internal control over reporting.

**Cause:** The County Finance Department relies on the various departments of the County to provide required information when an entry is required or to actually propose the journal entry. This communication was not there in all instances.

**Effect:** There is more than a remote likelihood that the Comprehensive Annual Financial Report would have prepared with misstatements that would not have been prevented or detected by St. Clair County’s internal control.

**Recommendation:** We recommend that the County examine the various areas when audit adjusting entries were proposed and institute improvements in controls to detect these differences.

**Response:** The Finance Department will work more closely with the various departments of the County, to hold them more responsible for initiating journal entries to adjust balances. This communication process and improved knowledge of “Statement on Auditing Standard No 112” will assist in eliminating proposed audit journal entries for 2008.

##### 06-02

**Program:** This Financial Statement Finding does not have an effect on Federal Awards.

**Condition:** The District Court Bonds & Restitution subsidiary ledgers were not reconciled to the general ledger cash and receivable account balances.

**Criteria:** Good internal control over cash held in trust for several individuals is the maintenance of a subsidiary ledger listing amounts that are held per individual. The total of the listing must agree to the cash recorded.

**Cause:** The cause of the reconciliation not being performed is unknown.

**Effect:** The subsidiary ledgers not reconciled to the cash and receivable account balances could result in more than a remote likelihood that an error could exist and not be prevented or detected by St. Clair County’s internal control.

## ST. CLAIR COUNTY, MICHIGAN

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2006

**Recommendation:** We recommend that the subsidiary ledgers be reconciled to the general cash balance each month.

**Response:** Administration has asked the District Court to provide the required information to the Accounting Department on a monthly basis so the Accounting Department personnel can complete the reconciliation.

#### 06-03

**Program:** This Financial Statement find does not have an effect on Federal Awards.

**Condition:** The County does not have formal procedures for the collection of landfill fees.

**Criteria:** In order to have good internal control over the collection of fees, there must be a procedure in place to evaluate the collectibility of receivables.

**Cause:** Management did not recognize that a number of the outstanding landfill fee balances in excess of 90 days that appear to be uncollectible.

**Effect:** The County could lose landfill fee revenue by not actively seeking collection, prior to the receivable being over 90 days that and considering turning over to a collection agency.

**Recommendation:** To increase controls and collection of past-due balances, we recommend that formal collection procedures be adopted outlining the steps to be followed in the collection of receivables. These should include the processing of past-due statements, calculation of interest and penalties, turning over of accounts to collection, writing-off of uncollectible accounts, etc.

**Response:** The Accounting Department has performed a review of the internal controls over collections at the landfill and this recommendation is in the process of being implemented.

The following two findings are considered to be significant deficiencies on internal control over financial reporting that are not considered to be material weaknesses:

#### 06-04

**Program:** This Financial Statement Finding does not have an effect on Federal Awards.

**Condition:** Lack of segregation of duties in the various accounting functions performed by individuals in various departments of the County that perform billing and collections.

**Criteria:** In order to have good internal control over the receipting process there should be segregation of duties or mitigating monitoring procedures.

**Cause:** The cause in many instances has resulted from the department personnel not having an accounting background, limited number of personnel, and not uniform procedures established.

**Effect:** While these internal control weaknesses may not create the opportunity for a discrepancy that would be material to the County as a whole, they may create an opportunity for a discrepancy that would be significant to the department.

**Recommendation:** We recommend that the County create an internal audit function to periodically perform detailed reviews of department internal controls. This should include documenting the types of revenues collected, documenting the billing and collection procedures, developing various analytical procedures to monitor annual revenues, documenting the controls over the checking accounts, and reporting the results, including recommendations for improvements, to the department heads and Board of Commissioners.

**Response:** The Accounting Department has designed an internal control checklist and as of this date, completed the review of internal controls in 15 of our departments. The results of these reviews have been communicated back to the Department Head in writing and we have asked for written comments regarding their ability to implement our proposed enhancements.

**06-05**

**Program:** This Financial Statement finding does not have an effect of Federal Awards.

**Condition:** Lack of segregation of duties with the payroll process.

**Criteria:** Good internal control over the payroll process has duties segregated so that no one individual has control over the entire process.

**Cause:** The County has not implemented procedures with the segregation of the duties in the processing of payroll.

**Effect:** A number of errors and/or irregularities could occur and go undetected including fictitious employees and changes in pay rates.

**Recommendation:** We recommend that controls be segregated so that no one individual has control over the entire payroll process. This should include separating the responsibilities for entering and processing the payroll from the responsibilities of entering all new employee information and pay rate changes.

**Response:** The Human Resources Department has been asked to change their procedures and internal controls.

### **Section III – Federal Award Findings and Questioned Costs:**

The following Federal Award Findings are required to be reported in accordance with Section 510 (a) of Circular A-133.

**06-1A**

**Program:** This Federal Award Finding affects all Federal Programs that have wages and are charged the related fringe benefits.

**Criteria:** Wages charged to a federal program are based on actual documented time, not on budget. Therefore the related fringes should be based on actual wages charged.

**Condition:** The amount charged to any fund or department of the County for fringe benefits is based on the budgeted number and status of the personnel at the time the budget is prepared.

**Questioned cost:** None.

**Context:** During the testing of wages and related fringe benefits charged to major programs, it was noted that fringe benefits were charged based on the budget rather than on a direct calculation based on actual personnel and the wages charged.

**Effect:** There was an immaterial effect to the programs tested, however, there is the possibility that either a material overcharge or undercharge for fringe benefits could occur should the staffing level and or marital status change significantly from the budget.

**Cause:** The County compares actual expenditures to budget during the year at the account level to help control expenditures. However, does not necessarily rebudget fringes based on changes in staffing level or marital status of personnel assigned to departments.

**Recommendation:** We recommend that the County investigate whether there is a feasible method of charging health insurance and other fringe benefits based on the actual number of personnel at any time and, also taking in to account their status. Certain benefits such as workers' compensation, unemployment, etc., should be allocated based on actual payroll.

**Response:** The ability to charge fringe benefits based on the actual number of employees is available on the existing payroll software. The Human Resources Department is being asked to make this change in the system.

## **06-2A**

**Program:** This Federal Awarding Finding affects all Federal Programs that have wages and are charged the related fringe benefits.

**Criteria:** OMB Circular A-87 that is applicable for all of the County's federal grants requires that charges to grants from internal service funds for self insurance should be reasonable in relationship to cost, risk of loss due to types of insured risk and earnings on any reserves.

**Condition:** The County's internal service fund for health insurance and other fringe benefits has had an increase in net assets over the past two years; An increase in 2006 of \$1,548,12 and in 2005 of \$1,700,412.

**Questioned Cost:** None.

**Context:** During the audit we noted that the net assets in the internal service fund reflected a balance greater than the 60 days cash expenses for normal operation purposes as suggested in OMB Circular A-87.

**Effect:** The indication that fringe benefits may have been charged in an amount that is in excess of normal operating needs and risk of loss due to types of insured risk.

**Cause:** The County not revaluating cost incurred in relation to charges for fringe benefits.

**Recommendation:** We recommend that the County review the fringe benefit amounts charged to the various funds and departments of the County. Based on the review results, the County should either reduce subsequent amounts charges or issue credits to the various funds or departments. Another alternative would be to transfer the excess net asset amount to the Health Care Fund since the County is significantly under funded because it has not funded the annual actuarial determined amount.

**Response:** Adjustments have been made to the amounts the County will transfer to the Internal Service Fund in 2008 for these benefits. It is anticipated these adjustments will bring the County in compliance with applicable federal requirements.

**Section IV – Prior Year Findings and Questioned Costs:**

See St. Clair County follow-up memo on status of prior year findings and questioned costs.

To: Federal Grantors and Flow-Through Agencies

From: Robert C. Kempf, Deputy Controller/Finance Director

Follow-up: Single Audit Findings for 2005

Date: June 22, 2007

**Response to 2005-1**

**Cash accounts should be reconciled to the general ledger on a timely basis.**

2005 was a unique situation with the employee assigned the bank reconciliation duty being absent for an extended period of time. For 2006 we reconciled timely with her return and have assigned someone else the duty as backup.

**Response to 2005-2**

**The County should adopt procedures to ensure compliance with the County's procurement requirement.**

We understand that this was the second year for this finding. In 2006 we continued to work on procedures to assure compliance. You will note that this was not a continual finding in 2006.

**Response to 2005-3**

**Documentation of steps performed during procurement.**

We have instituted a formal procedure in the Emergency Preparedness Department to document and maintain the steps performed during procurement.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
of St. Clair County  
Port Huron, Michigan

We have audited the financial statements of the governmental activities of St. Clair County, Michigan as of and for the year ended December 31, 2006, and have issued our report thereon dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered St. Clair County, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiencies described below to be significant deficiencies in internal control over financial reporting:

**2006-01 Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.**

In May of 2006 the Auditing Standards Board issued Statement on Auditing Standard 112, "Communicating Internal Control Related Matters Identified in an Audit". The new standard, in addition to changing terminology and significantly increasing items that would be considered weaknesses in internal control, also requires that the entity have the expertise and technical ability to prepare the entity's financial statements, including all the notes and GASB No. 34 financial statements, in accordance with generally accepted accounting standards. Although we believe that the County has the technical expertise and ability to prepare the County's financial statements, we proposed a number of significant audit entries based on our audit procedures. As a result, if the financial statements had been drafted based on the preliminary financial information and subsequent entries provided by management, they would have been incorrectly stated in a couple of areas.

As a result, Statement on Auditing Standards 112 considers this to be a significant deficiency, since the County's internal control procedures did not detect the difference. We recommend that the County examine the areas where entries were proposed and institute controls to detect these differences.

**2006-02 The District Court Bonds & Restitution subsidiary ledgers should be reconciled on a monthly basis to the balance in the bank account, plus the receivable subsidiary ledgers.**

Detailed subsidiary ledgers are generated for the District Court restitution payables, and Bond and Trust receivables. The amount in the payable reports should agree to the amount held by the County in the cash accounts plus the amount outstanding and shown as still receivable from the individuals. We recommend that these amounts be reconciled monthly.

**2006-03 Formal collection procedures should be adopted for collection of landfill fees.**

During our audit we noted that the County did not have formal collection procedures for the collection of landfill fees. While reviewing the aged accounts receivable it was noted that there were a number of outstanding balances in excess of 90 days. Based on discussion and other audit procedures it was noted that some of these accounts are uncollectible. As a result we proposed increasing the allowance for doubtful accounts significantly.

To increase controls and collection of past-due balances, we recommend that formal collection procedures be adopted outlining the steps to be followed in the collection of receivables. These should include the processing of past-due statements, calculation of interest and penalties, turning over of accounts to collection, writing-off of uncollectible accounts, etc. As of the date of this letter it is our understanding that the County is in the process of implementing a policy, which we strongly encourage.

**2006-04 The County should consider conducting detailed reviews of internal controls at each department.**

As you know, a considerable amount of revenues are collected at the individual departments, which is then periodically transmitted to the County Treasurer. Although we review internal controls of most departments during your annual audit, the audit is designed to determine weaknesses that would be material to the County as a whole.

During our review of these departmental internal controls, we noted several departments with weaknesses in these systems, such as a lack of segregation of duties in the receipting and billing functions, lack of segregation of duties over checking accounts maintained by the departments, no comparison of data such as number of licenses or permits issued to actual amounts receipted/billed. While these internal control weaknesses may not create the opportunity for a discrepancy that would be material to the County as a whole, they may create an opportunity for a discrepancy that would be significant to the department.

We recommend that the County create an internal audit function to periodically perform detailed reviews of department internal controls. This should include documenting the types of revenues collected, documenting the billing and collection procedures, developing various analytical procedures to monitor annual revenues, documenting the controls over the checking accounts, and reporting the results, including recommendations for improvements, to the department heads and Board of Commissioners. It is our understanding that the County is beginning this process in 2007.



**2006-05 Controls could be improved over the payroll process.**

During our audit we noted that the same employee receives and enters hours worked by employees, processes payroll checks, prints payroll reports, distributes checks, and effectively signs checks. As a result, a number of errors and/or irregularities could occur and go undetected including fictitious employees and changes in pay rates. Good internal accounting controls specify that no one individual should have control over an entire accounting process.

We recommend that controls be segregated so that no one individual has control over the entire payroll process. This should include separating the responsibilities for entering and processing the payroll, from the responsibilities of entering all new employee information and pay rate changes.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, of the significant deficiencies described above, we considered 2006-01 through 2006-03 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether St. Clair County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of St. Clair County in a separate letter dated June 22, 2007.

This report is intended solely for the information and use of management, the St. Clair County Board of Commissioners, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants,

June 22, 2007

## MANAGEMENT LETTER

To the Board of Commissioners  
St. Clair County  
Port Huron, Michigan

As you know, we have recently completed our audit of the basic financial statements of the County of St. Clair, Michigan as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the County's recordkeeping system. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**, dated June 22, 2007, the conditions described below are not considered significant deficiency or material weaknesses:

**The method of charging fringe benefits should be changed.**

At the current time, as in the past, the amount charged to any fund and department is based on the budgeted number of personnel and the filing status as of the time the budget is prepared. As a result, staffing level changes, marital status changes, or if the budgeted number of personnel changes, the amount charged to the department does not change.

We recommend that the County investigate whether there is a feasible method of charging health insurance and other fringe benefits based on the actual number of personnel at any time and, also taking into account their status. Certain benefits such as workers' compensation, unemployment, etc., should be allocated based on actual payroll.

**The amount charged the various funds and departments for Health Insurance and other benefits should be reviewed.**

For the year ended December 31, 2006 the County's Internal Service Fund used to accumulate and pay for these benefits had a net increase in net assets of \$1,548,120. (For 2005 the increase in net assets was \$1,700,412). A-87 that is applicable for all of the County's federal grants requires that charges to grants be based on estimated costs, and that a comparison of the revenues generated to the actual allowable cost be performed at least annually and an adjustment made for the difference between the revenue and actual costs. These adjustments can be made through one of the following adjustments methods: (a) a cash refund to the Federal Government for the Federal share of the adjustment, (b) credits to the amounts charged to the individual programs, or (c) adjustments to future billings rates. Internal service funds are allowed working capital reserves of up to 60 days cash expenses for normal operating purposes is considered reasonable.

We recommend that the County review the rates charged and either reduce subsequent rates charged the various funds or issue credits to each of the funds. Another alternative would be to transfer the excess to the Health Care fund since the County is significantly underfunded and does not fund the rate determined by the actuary annually.

**Equipment purchased with federal grants should be tagged and periodically physical inventories taken.**

The Federal government requires that property records be maintained for equipment acquired under Federal Awards. The property records should contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition data and cost, percentage of federal participation in the cost, location, condition, and any ultimate disposition data including date of disposal and sales price or method used to determine current market value.

With the Homeland Security grant increasing the amount of equipment purchases under federal awards it is even more important that the County have procedures in place to assure the above documentation is maintained. Also, a periodic physical inventory should be taken of the equipment in order to keep information current on the equipment record.

We recommend that a procedure that meets the Federal requirements for equipment management be developed.

Also it is our understanding that the capital asset detail ledger has not been compared to the actual physical assets since 2002. In order to increase controls over equipment and other assets, we recommend that a physical inventory of capital assets be taken periodically and any discrepancies investigated.

Also any equipment purchased with federal grants must be separately tagged identifying that it was purchased with grant dollars. (A different set of tag numbers and/or colors could be utilized for assets purchased with federal dollars).

**The reconciliation process for the cash accounts should be reviewed.**

For 2006 the County Treasurer's office reconciled the County bank accounts each month to an amount that they believed was insignificant to the County. Based on our conversations with the Treasurer's office the reconciliation procedures each month include reconciling the activity each month between the bank statement and general ledger. However, during the audit we noted a couple transactions during 2006 that were not recorded in the general ledger cash accounts but were adjusted on the bank reconciliation sheets. Also, there was an entry made by the controller's office after the end of the year that affected cash per the general ledger. Although we understand the complications of reconciling the bank accounts the size and complexity of the County's, we recommend that the bank statement and general ledger be agreed each month with any difference, regardless of size, be investigated and adjusted if necessary.

**A detailed listing of Inmate reimbursement receivables should be maintained and reconciled to the general ledger on a monthly/quarterly basis.**

As of December 31, 2006, the amount due for inmate housing is not recorded on the County's accounting records. Although we understand that most of these amounts are uncollectible, to increase controls, the County should maintain a detailed listing of the amounts outstanding, billings for the period and collections during the period, write-off's, etc.

**The County drains that have a negative cash balance should be rectified.**

During our audit we noted that a number of County Drains were in a negative position at December 31, 2006. Although there was significant improvement during 2006, it is our understanding of the Drain Code, that if monies are spent before assessments are made or drain notes issued, that the monies must come from the County Revolving Drain Fund. However, it is our understanding that the

Revolving Fund does not have sufficient funds to eliminate all of the negative balances. We recommend that the County Drain Commissioner issue drain notes, assess property owner or requested and/or request an increase in the advance from the County so that the negative cash balances in certain drains can be eliminated.

**A detailed assessment ledger should be maintained for drain assessments.**

The Drain Commissioner periodically assesses benefiting property owners' assessments for the maintenance and construction of drains within the County. Some of these assessments are paid in one installment and some are paid over a period of years. The Drain office maintains detailed files for each property assessed that are manually updated for assessments and payments; however, there is no summary listing indicating the amount owed by each owner. As a result, it is difficult to determine the assessments owed at any point in time and it is possible that assessment files could be lost or misplaced.

We understand that the Drain office purchased software in January 2007 to maintain a listing of the balance owed by each owner electronically. We encourage the Drain office to continue instituting these changes and that once all the information is entered, that it be balanced to the County general ledger on a monthly basis.

**The balance in the Drain 801 fund should be reconciled to the County's cash balance on a monthly basis.**

The drain code requires that the Treasurer maintain a record of each drain and that these records balance to the Drains Commissioners records. Although the Drain office and the County Treasurer office balances the activity for each drain each month, the actual cash that should be on deposit per the County's general ledger is not reconciled to the total for all 801 drains.

**Payroll liabilities per the payroll reports should be reconciled to the general ledger balances.**

At year-end, we noted balances of various payroll liability accounts that did not reconcile to actual amounts due to the various vendors (i.e., Internal Revenue Service, Garnishment, and Direct Deposit).

We recommend that the amounts withheld, including the amount recorded in the applicable general ledger account, be reconciled to the amount being paid. If everything is recorded correctly, the general ledger liability accounts should clear after each payroll is run and the amounts have been remitted. We also recommend that the balances outstanding be further investigated to determine if additional amounts are owed to or due from employees or vendors.

**Payroll related issues.**

During the audit we noted several employee personnel files that did not include either a W-4 or a completed I-9. To comply with Internal Revenue Service and U.S. Citizen and Immigration Services regulations, we recommend that the proper documentation be obtained for all employees. A periodic review of selected files would assist in this compliance.

We also noted the 2006 W-2's did not include amounts for employees who are given a vehicle allowance. Unless the vehicle allowance qualifies as an accountable plan (documentation is turned in to show actual mileage), these amounts should be added to the employee's payroll and the applicable taxes withheld.

**Procedures for year-end cutoff of receipts should be reviewed.**

Because of the size of the County, there are many outside departments that either have their deposits couriered to the County Treasurer's office or the bank. The varying dates of the courier pickup and the frequency of deposits from the other departments can create a timing difference of amounts

received by the County's departments but not received by the Treasurer's office at year-end. While most of these amounts are insignificant, we did note one department, the landfill, which had unrecorded deposits at year-end that were material to the fund.

We recommend the procedures for the year-end cutoff of receipts be improved by obtaining from each of the departments the last couple of receipts/deposits in December and the first receipt/deposit in January and tracing the amounts to the cash or accounts receivable accounts.

**All original documentation for the P-Card purchases should be maintained.**

During our audit testing of the P-Card purchases, the County personnel were unable to locate the supporting documentation for all of the charges. While the purchases appear to be legitimate expenditures of the department, it is impossible to determine this without the supporting documentation. We recommend that all supporting documentation be maintained as outlined in the County's Procurement Card Policy.

**The County should adopt procedures to ensure compliance with the County's procurement requirements.**

The County is moving toward Centralized Purchasing and is working on other procedures to ensure compliance with the procurement requirements. We encourage them to continue this process.

**RETIREMENT AND HEALTH CARE FUNDS –**

**Review of the Retirement Financial Information.**

During the audit we noted a number of issues that required audit entries including double charging for dental and health insurance for part of the year. Also, as of July 1, 2006 the County established a new Health Care Fund, and employer contributions were not split correctly between the "old" health care funds and the "new" health care funds. Also, during the year a new contract was approved that required one bargaining unit to contribute for health care benefits, and the County to contribute a certain percentage.

When we reviewed these issues with the Human Resources Department, it appeared that some of them occurred because a number of individuals do bits and pieces of the entire system, but no one reviewed the financial information in total.

We recommend that one individual be given the responsibility to review the retirement and health care funds balances and activity. This will become even more critical now that the Health Care Fund is separate and that different contracts are requiring different contribution rates.

**Retirement wages should be reconciled to the employer contributions on a monthly basis.**

During our audit, as in past audits, we attempted to reconcile the retirement wages multiplied by employer contribution percentage to the employer contributions actually made. After a considerable amount of work we were able to reconcile the wages and contributions to an amount that was insignificant to the retirement funds as a whole. Part of the problem was various reports indicated various wages that were subjected to retirement contributions.

We recommend that the retirement wages and the actual contributions be reconciled on a monthly basis and that the County investigate why various reports provide different retirement wages.

**Reserve for Employee Contributions.**

For those employees that are members of the Retirement System, however have not retired, a reserve balance is maintained in the general ledger that represents the accumulation of employee contributions plus interest earned.

Ledger cards are also maintained to accumulate employee contributions plus interest earned per individual employee.

We recommend that the total per the general ledger be agreed to the total of the individual ledger cards at least annually. The computerization of the individual ledger card would assist in the performance of this reconciliation.

**Net assets reserves should be reviewed for utilization.**

The Retirement Board should consider amending the St. Clair County Employees' Retirement Plan to reflect the reserves being utilized. The Plan presents five (5) reserves or net assets when only three (3) of the five (5) are required, and another reserve in use is not mentioned. The reserves currently in use are the Reserve for Accumulated Member Contributions, the Reserve for Pension Payments and the Reserve for Employer Contributions. The Reserve for Undistributed Investment Income and Reserve for Administrative Payments have been combined for reporting into the Reserve for Employer Contributions. The Reserve for Health Benefits has been added to accommodate reporting of post retirement benefits.

This report is intended for the information of management and the Board of Commissioners of St. Clair County, Michigan and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart Beaumont Whipple".

June 22, 2006